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WAYS & MEANS COMM.

Statement by Lawrence R. Houston before House Ways and Means Committee, 30 July 1963

Mr. Chairman, we appreciate very much the opportunity to appear before your Committee today and particularly your courtesy in arranging this hearing on such short notice.

As you gentlemen know, we have been appearing before Subcommittee No. 1 of the House Armed Services Committee which is considering our bill H. R. 7216, copies of which have been furnished you.

Through a letter from your chairman, we were apprised of the practice of the Ways and Means Committee to review those provisions of pending legislation which relate to the Internal Revenue Code. We have only one such provision in our bill and it is identical to that approved by the Congress for the Foreign Service last year.

If you will bear with me for a few moments, I will endeavor to explain to you the changes which our bill has undergone in the course of our present hearings before Subcommittee No. 1.

H. R. 7216 was originally drafted with two titles, the first of which dealt mainly with technical changes designed to update the Central Intelligence Agency Act of 1949, as amended. In order, however, to expedite matters and to assist the Subcommittee in its consideration of our bill, we have decided to drop all of Title I except subsection (7) of section 2, which is on page 7 at line 9. This section is the proposed amendment of the Internal Revenue Code which would exclude from gross income, compensation

for injury and sickness disability annuities payable under Title II of the proposed bill. This provision was adopted from section 831 of the Foreign Service Act of 1946, as amended November 30, 1962, and exactly the same criteria are prescribed in our provision as are set forth in the provision for the Foreign Service. Consequently, what we are requesting is precisely the same tax treatment for disability annuities as is provided for the Foreign Service.

Title II of our bill is concerned entirely with the establishment of a Central Intelligence Agency Retirement and Disability System for a select and quite limited number of our employees, and the disability provision governing these individuals is set forth in Section 231, on page 15.

Over the years we have found that those of our staff who are primarily engaged in overseas service, or other service of a highly specialized and often hazardous nature, present career management problems in many ways similar to those faced by the Foreign Service. Were the Agency to be accorded early retirement authorization, these problems would be greatly alleviated. In our testimony before Subcommittee No. 1 of the House Armed Services Committee we have given detailed justification of the need for such authorization to enable us to fashion a retirement and disability system better suited to needs of the Agency and to this limited number of our personnel. We explained that of the various plans of this sort that were studied, those provisions of the Foreign Service Act pertaining to retirement and disability, most nearly met these needs.

Unlike the Foreign Service system however, participation in our early retirement plan would not be open to all our employees since we have no comparable selected corps. Rather, criteria would be established which would permit of a process of selectivity to be practiced on an individual basis, somewhat like that provided the FBI.

Thus, the proposed act would cover none of the permanent Headquarters staff. The large majority of our employees, who are engaged in what might be called departmental service, would not qualify for this system. All such people would be covered under the Civil Service Retirement Act for which the tax provision is the "so called 'sick-pay exclusion'" in which the first \$100.00 a week is tax exempt until the optional retirement age. For those who qualify under our early retirement system, the disability annuity would be wholly excluded as is the annuity in the case of similar allowances resulting from active service in the armed forces of any country or in the Coast and Geodetic Survey or the Public Health Service or the annuity payable under the provisions of section 831 of the Foreign Service Act of 1946.

If this Committee sees fit to support our request for tax exemption on the disability annuity, we would propose to take the provision which is now subsection (7) of section 2 of Title I and put it in as subsection (f) of section 231 of Title II without any substantive change. We would then, of course, have to renumber the bill but there would be no change in either the retirement concept or this single tax aspect.